

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
THE HELP II PROGRAM
EXECUTIVE SUMMARY**

Applicant:	Anka Behavioral Health, Inc. (“Anka”) 1850 Gateway Blvd, Suite 900 Concord, CA 94520 Contra Costa County	Amount Requested:	\$750,000
		Requested Loan Term:	15 years
		Date Requested:	March 27, 2008
		Resolution Number:	HII-216
Project Site:	401 S. Airport Way, Manteca, CA 95337		
Facility Type:	Rehabilitation Facility, Residential Treatment Facility		
Prior HELP II Loan Borrower:	No		

Background: Anka (formerly Phoenix Programs, Inc.) was founded in 1973 to provide comprehensive rehabilitation and behavioral health services to persons with disabilities in Contra Costa County (primarily those with mental and developmental disabilities.) During the past thirty-five years, Anka has expanded its programs to other locations throughout the State and currently operates more than 64 programs in 19 counties in California.

Uses of Loan Proceeds: Loan proceeds will be used to refinance an existing variable interest rate bank loan in the amount of \$750,000 with a current interest rate of 6.50%. Refinancing this loan at a lower fixed interest rate of 3% will result in an estimated interest savings of approximately \$243,000 over the life of the proposed HELP II loan.

Financing Structure

- 15-year fixed rate loan.
- 180 equal monthly payments of approximately \$5,179 (yearly payments of approximately \$62,148).
- First lien position on property located at 401 South Airport Way, Manteca, CA 95337.
- Loan to value ratio not to exceed 95% (estimated loan to value ratio is 91%).

Financial Overview: Anka appears to have demonstrated a pattern of financial stability, modest profitability and significant growth in revenues during fiscal years 2005 through 2007. Anka appears to have maintained an adequate balance sheet during our review period with good liquidity and should be able to comfortably meet its HELP II loan payments.

Sources of Funds

HELP II Loan	\$750,000
Borrower Funds	<u>15,000</u>
Total Sources	<u>\$765,000</u>

Uses of Funds

Refinance construction bank loan	\$750,000
Financing costs	<u>15,000</u>
Total Uses	<u>\$765,000</u>

Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.

Staff Recommendation: Staff recommends approval of a HELP II loan for Anka Behavioral Health, Inc. in an amount not to exceed \$750,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.

**STAFF SUMMARY AND RECOMMENDATION
THE HELP II PROGRAM**

March 27, 2008

Anka Behavioral Health, Inc. (Anka)

Resolution Number: HII-216

I. PURPOSE OF FINANCING

***Refinance construction bank loan* \$ 750,000**

Anka purchased land located at 401 South Airport Way in Manteca during 2004 for \$250,000 and built a 3,200 square foot 14-bed residential facility (Northstar) on this property in 2006/2007. Anka had been forced to build the Northstar project as a result of the City of Stockton's eminent domain process at their previously located Northstar project in Stockton. It was not Anka's preference to relocate; however, Anka realized the new project was providing vital services to clients and forged ahead with the new Northstar project. The Northstar project services is funded by the Department of Mental Health.

Financing for this construction project was provided by a loan obtained from Bank of the West. This loan provides for a variable interest rate tied to the prime interest rate plus .50%. Currently the loan rate is 6.50%. The loan terms require payment of interest only with a balloon payment due in July 2008. Refinancing will provide Anka with a low fixed interest rate, stable debt payments compared to the existing variable rate loan and will also avoid a balloon payment.

The proposed HELP II loan will be secured by a 1st lien on the property located at 401 South Airport Way in Manteca, CA. The estimated value of the property is \$820,000, leading to a loan to value ratio of 91%. CHFFA will require a full appraisal report on this property prior to closing this loan.

<i>Financing Costs</i>		<u>15,000</u>
Escrow fee	\$ 5,625	
Authority fee	<u>9,375</u>	
<i>Total Uses of Funds</i>		<u>\$ 765,000</u>

II. FINANCIAL STATEMENTS AND ANALYSIS

Anka Behavioral Health, Inc. Statement of Activities (Unrestricted)

	For the year ended June 30		
	2007	2006	2005
<u>Support, Revenue & Gains</u>			
Government support	\$ 18,831,761	\$ 18,124,869	\$ 17,152,937
Contract service	2,732,199	2,733,912	2,684,776
Client fees	886,597	560,061	546,350
Other	360,730	13,198	259,421
Contributions	58,225	65,285	99,733
Total support, revenue and gains	<u>22,869,512</u>	<u>21,497,325</u>	<u>20,743,217</u>
<u>Expenses</u>			
Salaries and benefits	13,631,445	12,873,353	12,914,541
Rent and occupancy	2,198,013	1,762,635	1,632,261
Other operating expense	1,316,654	1,543,419	1,487,269
Supplies and Equipment	1,175,441	1,114,582	1,090,191
Professional fees	945,882	981,795	876,323
Subrecipient	944,186	624,310	169,699
Utilities and telephone	932,060	961,292	913,719
Insurance	408,300	402,005	397,943
Interest expense	318,217	242,384	247,218
Depreciation	280,870	217,972	202,980
Transportation and vehicle maintenance	201,522	190,364	217,695
Office supplies, postage, and shipping	194,212	227,986	217,385
Amortization	170,857	96,619	113,987
Bad debts	51,261	135,500	139,837
Loss on disposition of F/A	2,178	9,966	21,415
Total expenses	<u>22,771,098</u>	<u>21,384,182</u>	<u>20,642,463</u>
Change in unrestricted net assets	98,414	113,143	100,754
Unrestricted net assets at beginning of year	2,385,190	2,272,047	2,171,293
Unrestricted net assets end of year	<u>\$ 2,483,604</u>	<u>\$ 2,385,190</u>	<u>\$ 2,272,047</u>

Anka Behavioral Health, Inc.
Statement of Financial Position

	As of June 30		
	2007	2006	2005
<u>Assets</u>			
Current Assets:			
Cash and cash equivalents	\$ 886,631	\$ 178,439	\$ 217,448
Contracts and other receivable, net	2,488,428	2,925,041	2,891,349
Prepaid expenses	69,346	4,459	468
Total Current Assets	<u>3,444,405</u>	<u>3,107,939</u>	<u>3,109,265</u>
Property and equipment, net	4,212,848	4,691,507	3,204,900
Construction in progress	-	-	383,529
Deposits	302,247	267,858	235,543
Intangibles, net	233,552	263,103	293,601
Other assets	62,101	50,614	35,010
Total Assets	<u>\$ 8,255,153</u>	<u>\$ 8,381,021</u>	<u>\$ 7,261,848</u>

Liabilities & Net Assets

Current Liabilities:			
Accounts payable	\$ 686,738	\$ 636,304	\$ 925,699
Accrued vacation	304,186	305,455	260,075
Accrued payroll and related taxes	518,363	475,932	473,350
Other accrued liabilities	423,482	168,313	363,054
Line of credit	-	1,200,000	410,749
Notes payable, current portion	258,330	155,615	291,225
Total Current Liabilities	<u>2,191,099</u>	<u>2,941,619</u>	<u>2,724,152</u>
Notes payable, net of current portion	<u>3,469,618</u>	<u>3,054,212</u>	<u>2,265,649</u>
Total Liabilities	<u>5,660,717</u>	<u>5,995,831</u>	<u>4,989,801</u>
Net Assets:			
Unrestricted	2,483,604	2,385,190	2,272,047
Temporarily restricted	110,832	-	-
Total Liabilities & Net Assets	<u>\$ 8,255,153</u>	<u>\$ 8,381,021</u>	<u>\$ 7,261,848</u>

Financial Ratios:

	Proforma (a)			
Debt Service Coverage (x)	1.47	1.47	1.07	1.15
Debt/Unrestricted Net Assets (x)	1.50	1.50	1.35	1.13
Margin (%)		0.43%	0.53%	0.49%
Current Ratio (x)		1.57	1.06	1.14

(a) Recalculates 2007 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

Anka's income statement appears to exhibit consistent increases in unrestricted net assets during our review period.

Anka appears to have a proven track record with a successful operating history since 1973. Anka has experienced positive operating results for the last three fiscal years with increases in unrestricted net assets. Anka's income statement appears to exhibit consistent revenue growth supported by its ability to provide services to an increasing number of clients, as clients served increased from 600 in FY 2005 to 1,050 in FY 2007.

Important Facts to Note:

- In FY 2007, Anka reported an increase in unrestricted net assets of \$98,000. Total revenue increased from \$21.5 million in FY 2006 to \$22.9 million in FY 2007. Anka's revenues and expenses both increased by approximately 6%. Client fees and other revenues increased substantially due to an increase in client rental/food revenues as a result of the rollout of new programs. In addition, revenue increased due to the sale of real property, which Anka refers to as "the Cottontail property," for approximately \$300,000.
- During FY 2006, Anka reported an increase in unrestricted net assets of \$113,000, 12% higher than FY 2005. Anka's revenues and patients served also increased.

Financial Discussion – Statement of Financial Position (Balance Sheet)

Anka's balance sheet appears adequate with good liquidity and satisfactory debt service coverage, thus Anka should comfortably be able to make repayments of the proposed HELP II loan.

Important Facts to Note:

- In FY 2007, Anka reported total unrestricted net assets of \$2.4 million, a 4% increase over FY 2006. Anka appears to have adequate liquidity with a 1.57x current ratio, supported by significant cash/cash equivalents of \$886,000. Anka has taken on significant levels of long-term debt since FY 2005 to fund expansion projects for new property, plant and equipment and its current debt to unrestricted net assets is significantly leveraged at 1.50x. Although significantly leveraged, Anka appears to be in a position to comfortably repay the proposed HELP II loan as its proforma debt service coverage ratio is 1.47x, which is within acceptable guideline levels established for the HELP II Loan Program.

- Anka maintains two operating lines of credit (LOC's) with Bank of the West, one with a current loan balance of \$500,000 and the other with \$0 balance. These LOC's have limits of \$1.4 million and \$500,000 respectively. Both LOC's have variable interest rates tied to the prime rate. Anka has historically maintained LOC's accounts as a strategic financing tool and the current loan balances appear to be within normal historical levels.

III. UTILIZATION STATISTICS

Clients Served Fiscal Year Ended June 30

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Totals	1050	950	600

IV. ORGANIZATION

Background

Founded in 1973, Anka Behavioral Health, Inc., formerly Phoenix Programs, Inc., was incorporated as a non-profit corporation to provide comprehensive rehabilitation and behavioral health services to persons with disabilities, primarily those with mental and developmental disabilities in Contra Costa County. Anka's campuses include three multi-service centers, one in each area of the county, and a 20-bed shelter for a similar population in Antioch.

Over the last thirty-five years, Anka has expanded its programs into other areas of the state and currently operates more than 64 programs in 19 counties throughout California.

These centers serve approximately 6,000 visits per year. Anka centers offer various services to help clients access healthcare, dental services, psychiatric evaluations, medications, money management, case management, social services, and individual and group counseling. Anka provides further assistance to the homeless population affected by mental illness and substance abuse in the form of social rehabilitation programs, crisis residential housing, community living programs, independent living apartments, Phoenix Enterprises Workshops, job training, and job placement services.

Licenses

Anka is licensed by the State Department of Social Services to operate Transitional Residential Treatment Programs. Additionally, Anka is licensed by the State Department of Social Services to operate a Social Rehabilitation Facilities.

V. OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding* As of June 30, 2007</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
Existing Long-Term Debt:			
Union Bank	\$1,474,950	\$1,455,612	\$1,455,612
Bank of the West	750,000	750,000	0
National City Mortgage	207,075	195,618	195,618
GMAC Mortgage	169,200	142,867	142,867
Wells Fargo Mortgage	181,735	170,154	170,154
Bank of the West	193,542	145,926	145,926
HUD	616,300	483,222	483,222
City of Concord	32,710	115,031	115,031
Bank of the West	310,242	146,825	146,825
American Honda	35,700	21,663	21,663
State of California (forgivable)	97,404	97,404	97,404
Unsecured note (Private)	37,292	3,626	3,626
Proposed			
CHFFA HELP II, 2008		N/A	750,000
TOTAL DEBT		\$3,727,948	\$3,727,948

*Includes current portion of long-term debt.

VI. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- Savings Pass Through: WRA has provided a description of its savings pass through in **Exhibit A.**
- Section 15459.1 of the Act (Community Service Requirement): Contra Costa Association for Retarded Citizens has executed this certification indicating that Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **Exhibit B.**
- Religious Due Diligence
- Legal Review

VII. STAFF RECOMMENDATION

Staff recommends approval of a HELP II loan for Anka Behavioral Health, Inc. in an amount not to exceed \$750,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.